

FACTS ABOUT THE FEDERAL RECAPTURE TAX ON FIRSTHOME AND FIRSTHOME PLUS MORTGAGES

Photo courtesy of Federal Home Loan Bank of Des Moines

ANNOUNCING: RECAPTURE TAX REIMBURSEMENT!

Federal recapture tax repayment is no longer a barrier for Iowa Finance Authority home buyers who financed with the FirstHome program!

In the uncommon event of federal recapture tax, the Iowa Finance Authority will reimburse the home buyer for the amount of recapture tax paid to the Internal Revenue Service if reimbursement is requested within six months of Recapture Payment. The Iowa Finance Authority's Recapture Reimbursement policy is effective for all loans funded on or after November 14, 2011. Refer to the Recapture Disclosure Notice for reimbursement process.

WHAT HOMEOWNERS AND HOME BUYERS NEED TO KNOW.

The Iowa Finance Authority's FirstHome and FirstHome Plus programs use tax-exempt bond proceeds to subsidize lower interest rates and down payment assistance for first-time home buyers. In certain rare circumstances, loans made through these programs are subject to a recapture tax to be paid upon the borrower's filing of their federal tax return after the sale of the home, which allows the federal government to recoup some of those funds. Only Iowa Finance Authority programs financed with tax-exempt bonds are subject to the recapture tax.

Recapture tax only applies under all three of these conditions:

1. YOU SELL YOUR HOME WITHIN NINE YEARS.
2. YOU REALIZE A GAIN FROM THE SALE.
3. YOUR HOUSEHOLD INCOME INCREASES MORE THAN 5% PER YEAR ABOVE THE LOAN PROGRAM LIMIT IN EFFECT WHEN THE LOAN CLOSED.

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Let’s look at two examples where the homeowner sells after two years:

EXAMPLE 1	
TOTAL HOUSEHOLD INCOME AT TIME OF MORTGAGE \$50,000	
TOTAL HOUSEHOLD INCOME AT TIME OF HOME SALE \$100,000	
Original mortgage	\$100,000
Sale price	\$110,000
50% of gain*	\$5,000
Recapture tax	\$3,750 (\$100,000 x 3.75)
Amount owed	\$3,750

Example 1 would be subject to the recapture tax because the borrower’s income has increased more than the 5% annual limit that the IRS allows.

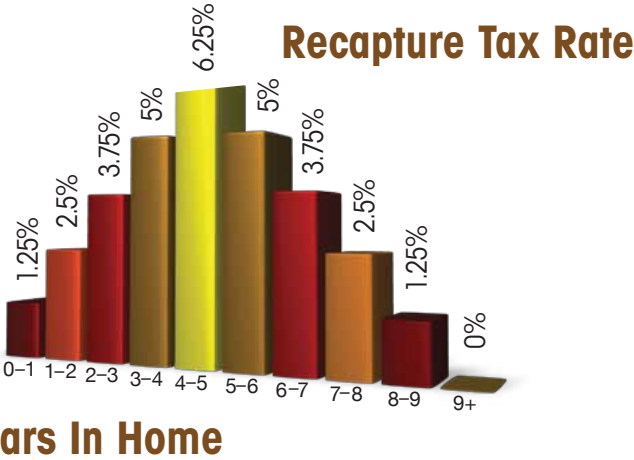
EXAMPLE 2	
TOTAL HOUSEHOLD INCOME AT TIME OF MORTGAGE \$40,000	
TOTAL HOUSEHOLD INCOME AT TIME OF HOME SALE \$42,000	
Original mortgage	\$100,000
Sale price	\$105,000
50% of gain*	\$2,500
Amount owed	\$0.00

Example 2 would NOT be subject to the recapture tax. Although the borrower sold after two years, realized a gain in the sale of the home and experienced an increase in salary, the borrower’s income did not increase by more than the IRS allows.

*Gain is calculated after deducting real estate commissions, sale costs, improvements to the home, etc.



If you sell your home within nine years of purchasing it, realize a gain from the sale and have a higher income at the time of the sale, the following scale applies:



The IRS will use a formula to determine how much recapture tax you owe, if any. The tax will be the lesser of:

- 6.25% of the original mortgage or
- 50% of the gain realized from the sale of the home

Again, even if you sell your home before nine years, there are certain conditions that will make you or your estate exempt from the recapture tax:

- The property is transferred to a former spouse in a divorce settlement.
- The property is transferred as a result of the borrower’s death.
- The property is destroyed by fire or other casualty, provided a replacement home is built on the original site.
- There is no profit on the sale of the property.
- The borrower’s actual gross income in the year the property is sold does not exceed the modified adjusted gross income determined by the IRS formula.

The information provided, while believed to be accurate, is not warranted or guaranteed by the Iowa Finance Authority and should not be relied upon for tax purposes. To determine whether and to what extent you may be subject to recapture, consult a tax advisor or the IRS.